
WHAT IS A HEALTH SAVINGS ACCOUNT?

Set aside money to help pay for medical costs and get tax benefits with a health savings account.

Shop wisely for your health plan

Not all health insurance plans with a high deductible are eligible for a health savings account. When considering an HSA, look for an “HSA-eligible” option.

What Is a Health Savings Account?



A health savings account can help you lower your taxes, pay for healthcare, and even save for retirement. Here’s what you need to know about how an HSA works and whether it’s a good option for you.

A health savings account (HSA) can be a great way to save and pay for healthcare, dental and vision care, prescription drugs and medications, and other medical-related expenses. But it’s not for everyone. The following information can help you determine if an HSA is right for you.

What Is an HSA?

An HSA is a specialized savings account you may be able to open if you have a high-deductible health plan (HDHP). An HDHP may offer you a lower monthly premium, but it may have a higher deductible compared to other health insurance plans. When you combine an HSA with this type of health insurance coverage, you set aside money on a pretax basis to pay for qualified medical expenses. Your HSA balance rolls over every year,



so this account allows you to build up your savings to pay for healthcare services and supplies you may need later.

Each year, the IRS redefines the minimum deductible that an HDHP can designate and the maximum amount a plan holder can spend out of pocket. The IRS also determines the maximum amount that you can contribute to an HSA for each calendar year. These contribution maximums are determined by the type of coverage you have: individual or family. You can review these limits in IRS Publication 969.

How Is an HSA Different From a Flexible Spending Account?

Both HSAs and flexible spending accounts (FSAs) are tax-advantaged accounts that allow you to save specifically for medical costs. Contributions are not taxed for either HSAs or FSAs; distributions are tax-free if used for eligible medical expenses, but there is a 20% penalty if funds are used for nonmedical expenses. Some of the differences between a health savings account and a flexible spending account include:

- You open and control your HSA. Your employer opens and controls your FSA.
- HSAs are owned by the individual and carry over with employment changes. FSAs are employer-owned and don't carry over.
- An HDHP is required to qualify for an HSA, while you can have a traditional health plan with an FSA if it is offered by your employer.
- HSAs have higher contribution limits than FSAs, including the option to double contributions for families.
- Unused funds roll over every year for HSAs. With an FSA, you forfeit any unused balance unless your employer allows a rollover or a grace period.
- With HSAs, contributions can be changed at any time, as long as you don't go over the contribution limits. Contributions to an FSA can be changed at open enrollment, if your family situation changes, or if you change your plan or employer.
- You can withdraw money from your HSA for any purpose, without penalty, if you're 65 or older. With FSAs, employees may not have access to funds for nonmedical expenses.

HSAs Have Triple Tax Benefits

HSAs can save you money on taxes in three ways.

- The money you deposit into your account, including by payroll deduction, is not subject to taxes.
- Earnings from investments or interest are not taxed.
- Money you withdraw from your account is not taxed as long as the funds are used for qualified medical expenses.

How Can You Qualify for an HSA?

To qualify for an HSA, you'll need to meet the following requirements:

- You must be enrolled in a high-deductible health insurance plan that is HSA-eligible.
- You cannot have another health insurance plan (this exclusion does not apply to certain other types of insurance, such as dental, vision, disability, or long-term care coverage).
- You cannot be eligible for Medicare.
- You cannot be listed as a dependent on someone else's tax return.

To get more information, ask your employer about HSA-eligible plans or visit [HealthCare.gov](https://www.healthcare.gov).

Who Does an HSA Cover?

The money you contribute can be used to pay qualified medical expenses for:

- You, as the primary covered individual on the insurance plan
- Your spouse, even if you have self-only coverage



- Your tax dependents, even if you have self-only coverage

What Does an HSA Cover?

You can use your HSA money to cover a wide range of expenses, including:

- Deductibles
- Copayments
- Coinsurance
- Prescriptions
- Dental expenses
- Hearing aids
- Eyeglasses

A convenient way to pay for qualified medical expenses, doctor visits, and prescriptions is with a debit card linked to your HSA account. If you don't use a debit card, you can pay with cash or with a credit card and reimburse yourself later with your HSA dollars. An updated list of qualified medical expenses is available from the IRS.

Is an HDHP Right for You?

If you're young, healthy, and don't expect to have any major medical expenses during the year, you may want to opt in to an HDHP at work. If you do, consider also starting an HSA. Reach out to your financial institution. They can help answer your questions and offer guidance.



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